



United States
Department of
Agriculture

Food and
Consumer
Service

Mountain
Plains
Region

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Reply to
Attn of:

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CACFP-644
SFSP-426

Subject:

Use of the Internal Revenue Service (IRS) Form 1040
For Determining Self-Employment Income

To:

STATE AGENCY DIRECTORS -
(Child Nutrition Programs)

Colorado ED, Colorado DPHE,
Iowa, Kansas, Missouri ED,
Missouri DH, Montana OPI,
Montana DPHHS, Nebraska,
North Dakota, South Dakota,
Utah and Wyoming ED

This memorandum clarifies guidance on determining self-employment income using information from the IRS Form 1040 which was issued in our memorandum CACFP-520. This clarifying memorandum is being issued to National School Lunch Program (NSLP) State Directors as well as Child and Adult Care Food Program (CACFP) and Summer Food Service Program (SFSP) State Directors because the original memorandum states that the policy is applicable to all Child Nutrition Programs (CNP).

The CACFP-520 memorandum states, in paragraph three on page two, that "the deduction of losses are not permitted in determining eligibility for benefits in any of the Child Nutrition Programs . . . Both the School Programs and CACFP Eligibility prohibit deduction of deduction of losses and require instead that . . . the loss be treated as 'zero' income." However, we wish to clarify that a negative number listed on any of the lines 13, 14 or 17 is not to be treated as "zero income" if it is a loss which is to be used in calculating the net self-employment income from a farm or business.

A taxpayer who is self-employed completes schedule C to calculate business income to be entered on line 12 of the Form 1040, or, if a self-employed farmer, completes schedule F to calculate farm income to be entered on line 18 of Form 1040. In addition, lines 13, 14, and/or 17 may also show gains or losses which are specific to the self-employment enterprise reported on line 12 or line 18. Following our policy of determining net income for self-employment by subtracting business expenses from gross receipts ("Eligibility for School Meals Manual," page 32; "Eligibility Guidance for Family Day Care Homes," page 34), the determining official should combine self-employed business/farm gains or losses entered on line 12 or line 18 with any farm/business-related gains or losses entered on line 13, 14, or 17, to derive the net self-employment income for the individual. When these calculations have been performed, the cumulative net figure is the net self-employment income. If the figure is a negative number, it should be shown as "zero" for the self-employment income and the loss not used to offset against any other income.

As an illustration, if a self-employed person reported the following on the Form 1040, all from his/her self-employment: line 12, \$-5,000; line 13, \$-2,000; and line 17, \$4,000, the determining official would first combine these figures for gains and losses to derive a net business loss of \$3,000. Note that the Form 1040 itself does not isolate these particular calculations, so the determining official must calculate this separately. If the taxpayer's spouse is a wage earner reporting \$30,000 in income, the IRS would view their "household income" as \$27,000. However, the USDA CNPs would count the self-employment income "loss" as "zero", so the "household income" would be considered as \$30,000.

Determining officials must be cautioned that lines 13, 14, and 17 on the Form 1040 may show figures that are not related to self-employment even when a household member is self-employed, or, figures on these lines may combine figures for self-employment gains or losses with other gains or losses not from self-employment. Determining officials must ascertain what, if any, amounts from lines 13, 14, and

17 are to be used in calculating the net self-employment income, and perform a calculation separate from the one found on the Form 1040. In addition, where these lines show income that is separate from self-employment, the determining official should evaluate that income to determine if it should be included in making the overall income determination for the household.

Darlene Sanchez
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Child Nutrition Programs